

## Message Text

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64

ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 OMB-01 TRSE-00 OPIC-03 /078 W

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R 211552Z APR 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 2565

INFO AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY THE HAGUE

USMISSION NATO

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

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E.O. 11652: N/A

TAGS: EFIN, PFOR, PO, BR

SUBJ: END OF DIPLOMATIC CRISIS OVER BANCO DO BRASIL IN LISBON

REF: (A) BRASILIA 2927 (NOTAL) (B) BRASILIA 3032 (NOTAL)

SUMMARY: PROBLEM CREATED BY PORTUGUESE GOVERNMENT ANNOUNCEMENT OF APPOINTMENT OF DELEGATE FOR LISBON BRANCH OF BANCO DO BRASIL HAS APPARENTLY BEEN RESOLVED. DESPITE LONG HISTORY OF SUPERVISION BY NANKING AUTHORITIES IN BOTH COUNTRIES, AND PUBLICATION IN NOVEMBER 1974 OF LAW AUTHORIZING DELEGATES FOR BANKS, BRAZILIAN OFFICIALS, INCLUDING THEIR EMBASSY HERE, CONNECTED ACTION WITH RECENT NATIONALIZATION OF PORTUGUESE BANKS AND CON-

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SIDERED TAKING STRONG ACTIONS. END SUMMARY.

1. BUDDING DIPLOMATIC CRISIS OVER APPOINTMENT BY PORTUGUESE GOVERNMENT OF DELEGATE TO BANCO DO BRASIL IN LISBON (REFTELS) SURFACED APRIL 17 WHEN BRAZILIAN GOVERNMENT DEEMED ACTION UNACCEPTABLE. DIPLOMATIC SOURCES WERE QUOTED AS MENTIONING POSSIBLE WITHDRAWAL OF BRAZILIAN AMBASSADOR HERE AND, "IN EXTREME CASE," CUTTING RELATIONS.

2. PRESS CARRIED EXPLANATION BY A PORTUGUESE "RELIABLE SOURCE":  
A. 1972 ESTABLISHMENT OF BANK OF BRAZIL COMMERCIAL FACILITY IN LISBON AND TRANSFORMATION OF EXISTING AGENCIA FINANCIAL PORTUGUESA OFFICE IN RIO INTO COMMERCIAL BANK WERE BASED ONLY ON INTERNAL LAWS EXPRESSLY STATING THAT THEY WILL FUNCTION IN ACCORDANCE WITH EXISTING INTERNAL MONETARY AND FINANCIAL NORMS.  
B. BOTH BANKS HAVE BEEN SUBJECT TO CLOSE SUPERVISION OF EXCHANGE OPERATIONS, MOVEMENT OF ACCOUNTS, LOANS, ETC., BY RESPECTIVE MONETARY AUTHORITIES.

3. FURTHER OFFICIAL EXPLANATION WAS ISSUED APRIL 17 IN FORM OF COMMUNIQUE FROM GOP EMBASSY IN BRASILIA. EMBASSY'S COMMUNIQUE BEGAN BY HEAVILY CRITICIZING RECENT PRESS COVERAGE OF PORTUGAL, EXPRESSLY DISTORTIONS, SMEARS AND OFFENSIVE REFERENCES TO PORTUGUESE LEADERS, AND EXPLICIT INCITEMENT TO ECONOMIC BOYCOTT, INTERNAL REVOLT, OR FOREIGN INTERVENTION.

4. TO ANSWER PRESS "SPECULATIONS," EMBASSY PROVIDED FOLLOWING "SIMPLE TRUTHS":

A. NOMINATION OF DELEGATES DUE TO NECESSITY TO EXERCISE GREATER FINANCIAL "CONTROL" WAS ANTICIPATED IN DECREE-LAW PROMULGATED LAST NOVEMBER 29 (LISBON 5500 OF DECEMBER 13, 1974 (NOTAL)). JOB OF DELEGATES IS SIMPLY SUPERVISION (FISCALIZACAO). DECREE, WHICH APPLIED TO ALL EXISTING CREDIT INSTITUTIONS, DID NOT AROUSE ANY OBJECTIONS.

B. FOR TECHNICAL REASONS, APPOINTMENT OF DELEGATES TO SOME BANKS, SUCH AS BANCO DO BRASIL, DID NOT TAKE PLACE UNTIL NOW.

C. MARCH 12 ANNOUNCEMENT OF BANK NATIONALIZATION EMPHASIZED THAT FOREIGN BANKING INSTITUTIONS WERE NOT INCLUDED. ANNOUNCED ATTENTION OF APPOINTING DELEGATE HAS NOTHING TO DO WITH RECENT NATIONALIZATION OF PORTUGUESE BANKS, AND APPOINTMENT LIMITED OFFICIAL USE

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CANNOT BE IDENTIFIED WITH COMMON MEANING OF "INTERVENTION." DELEGATES CAN IN NO WAY INTERFERE IN MANAGEMENT.

5. APRIL 21 PRESS REPORTED BRAZILIAN GOVERNMENT ACCEPTANCE OF PORTUGUESE EXPLANATIONS (REFTEL (B)).

6. COMMENT:

A. EMBASSY BELIEVES DISPUTE WAS RESULT OF MISUNDERSTANDING

AND THAT APPOINTMENT OF DELEGATE IN AND OF ITSELF DOES NOT APPEAR TO CONSTITUTE "INTERVENTION." OFFICIAL OF LOCAL BRANCH OF BANK OF LONDON AND SOUTH AMERICA CONFIRMED TO US THAT THEIR DELEGATE HAD ONLY BEEN NAMED ON APRIL 11 AND STARTED WORKING APRIL 15. HE SAID THAT DELEGATE THUS FAR APPEARS TO BE FOLLOWING SAME COURSE AS PREVIOUS GOVERNMENT INSPECTORS. (THIRD AND ONLY OTHER FOREIGN-OWNED BANK HERE IS CREDIT FRANCO-PORTUGUES, OWNED BY FRENCH CREDIT LYONNAIS.)

B. BRAZILIAN EMBASSY HERE TOOK MATTER SERIOUSLY. THEY ASSUMED ACTION WAS DESIGNED TO OVERSEE GROWING MOVEMENTS OF FUNDS TO BRAZIL, AND

SAID THEY WERE SERIOUSLY CONSIDERING CLOSURE OF BANCO DO BRASIL OFFICE AS WELL AS OFFICE OF AGENCIA FINANCIAL IN RIO, WHICH WOULD HAVE HURT THE PORTUGUESE GOVERNMENT MORE THAN BRAZIL, AS AGENCIA FINANCIAL IS CONDUIT FOR REMITTANCES FROM 800,000 PORTUGUESE EMIGRANTS IN BRAZIL.

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## Message Attributes

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